

## World Bank Group

### International Development Association (IDA)

<b>FY2002 Appropriation</b>	<b>FY2003 Scheduled Request</b>	<b>FY2003 Arrears Request</b>	<b>FY2003 Total Request</b>
\$792.4M	\$850.0M	\$24.3M	\$874.3M

The Administration has requested \$850 million for FY2003 for the first of three payments under the U.S. commitment to the 13<sup>th</sup> replenishment of IDA (IDA-13), covering the period July 2002 through June 2005. Another \$24.3 million has been requested to clear one-third of outstanding arrears.

The total size of IDA-13 is expected to be \$22.9 billion; of this, \$12.7 billion is anticipated to be covered by new commitments from donor countries and the remainder by repayment reflows on previous loans and by direct income transfers from the World Bank.

The total U.S. commitment to IDA-13 is \$2.55 billion, with the potential for an increase of up to \$2.85 billion based on IDA's satisfactory achievement of key indicators. At the base-case level of \$2.55 billion, the U.S. share of new donor commitments is 20.1%. Assuming IDA achieves the key development indicators and qualifies for the full, \$2.85 billion, the U.S. share of new donor commitments would be 21.9%.

If IDA performance is satisfactory, the annual average U.S. commitment to the IDA-13 replenishment (\$950 million) will represent an increase of 18.2% over our annual commitment (\$803.4 million) under the previous IDA replenishment (IDA-12). In addition, \$24.3 million is requested to clear one-third of outstanding U.S. arrears to IDA, which now total \$73 million.

#### **IDA's Institutional Mandate**

In 1960, under the leadership of the Eisenhower Administration, IDA was created as the soft loan affiliate of the IBRD to promote sound economic management and poverty reduction among its poorest developing country members. IDA provides concessional loans for economic reform, infrastructure, human capital development, improving the environment, and disaster recovery, as well as policy advice and technical assistance. Its goal is to help the poorest countries create the social and economic conditions needed to achieve sustainable growth and poverty reduction. The majority of IDA funding comes from periodic replenishments from donor countries, though repayments from past loans are an increasingly important source of IDA resources. Direct transfers from World Bank net income have also been provided in recent years in modest amounts.

## Key Facts

- The U.S. share of IDA-13 is approximately 21%, down from 42% in IDA-1.
- In terms of voting shares, the U.S. is the single largest shareholder in IDA with 14.5%.
- In WBFY01, IDA made loans of \$6.8 billion, compared to \$4.4 billion in WBFY00. The increase in WBFY01 lending was largely due to \$1.4 billion in new commitments to three countries (Ethiopia, Kenya and Pakistan) that had received no new IDA financing in WBFY00.
- Since its inception, IDA has made commitments totaling \$127 billion.
- In FY2002, U.S. contributions to IDA totaled \$792.4 million.
- While IDA focuses on poverty reduction, it also supports infrastructure improvements and economic reform. During WBFY01, 38% of IDA's lending was for economic reforms (i.e., finance and private sector development, public sector management, economic policy, and multisector investments), 14% for infrastructure, and 14% for agriculture and environment.
- During the last three years (WBFY99-01), 42% of IDA lending went to Sub-Saharan Africa and 23% went to South Asia. In WBFY01, 50% of IDA lending went to Sub-Saharan Africa.
- Currently, 79 countries are eligible to use IDA resources. With the exception of ten small islands and one borrower expected to graduate, IDA-eligible countries have per capita income below \$860 with limited or no ability to borrow on market terms.
- Twenty-four countries have graduated from IDA. As of July 1, 2001, the beginning of the last year of IDA-12, Macedonia was no longer an IDA borrower.
- South Korea and Turkey, former IDA borrowers, are now IDA donors.
- Lending allocations are based on policy performance, which is determined on the basis of monitorable criteria addressing economic management, structural policies, policies for social inclusion, and governance.
  - For every \$1 per capita lent to the median IDA borrower in WBFY93-95, about \$1.20 went to the best performers and \$0.85 to the poorest performers. By WBFY98-00, the spread had widened, with \$2.10 per capita going to the best performers and \$0.60 to the poorest performers.

## **Institutional Effectiveness**

### *OED Evaluation of IDA10-12*

- An independent review of IDA's operations by the Bank's Operations and Evaluations Department (OED) during the IDA-10 through IDA-12 periods (WBFY94-01) found much progress in IDA's project-level outcomes as well as in quality indicators.
- Although OED found the development outcomes of IDA programs to be only partially satisfactory – which is also impacted by borrower, partner and IDA performance – it pointed out that there were notable improvements over this period.
- According to the OED report, “progress achieved has accelerated. Although shortcomings remain, implementation trends augur positively for the future.”

### *Lending Effectiveness*

- On the Ground Results: In the areas of human development, institutional strengthening, and post-conflict assistance, IDA has helped:
  - In Ethiopia, to improve access by four million people to health and sanitation facilities, and access by 600,000 children – half of them girls – to school;
  - In Senegal, to advance prospects for more than halving the female illiteracy rate to 30 percent by 2005;
  - In some Caribbean countries, to reduce telephone and Internet charges by up to 50 percent;
  - In Rwanda, to return to normal social and economic life some 1.3 million refugees of the civil war and to strengthen the country's economic recovery; and
  - In Bosnia and Herzegovina, to create 100,000 jobs through support for microcredit, following the brutal war of the early 1990s.
- Lending Allocations: The main factor that determines the allocation of IDA resources – which comes primarily from donors – among eligible countries is each country's performance rating in implementing policies that promote economic growth and poverty reduction.
  - For the IDA-13 period, 17 countries will have their IDA lending allocations significantly reduced due to poor governance ratings.
- Fraud and Corruption: World Bank policy requires that projects be supervised to ensure that loan proceeds are used only for the purposes for which the loan was granted, with due regard

to economy, efficiency, and the sustainable achievement of the project's development objectives.

- The Bank's investigations had by September 2001 resulted in 72 firms and individuals being permanently banned from future Bank-financed contracts.
- The World Bank is the first multilateral development bank to publish on its external web page (<http://www.worldbank.org/html/opr/procure/debarr.html>) the names of firms and individuals found to have committed some form of fraud or corruption.
- The World Bank's anticorruption strategy provides that corruption should be explicitly taken into account in IDA's country risk analyses, lending decisions and portfolio supervision.

### *Areas for Improvement*

While IDA's performance had improved markedly over the IDA10-12 period, especially in its poverty focus and responsiveness to borrowers, there are specific areas that could be improved:

- Measuring Results: Effective monitoring and evaluation systems are essential for assessing progress in meeting poverty reduction targets and promoting development effectiveness. IDA will need to establish performance indicators and monitoring and evaluation systems with a clear development outcomes focus.
- Grants: IDA should adopt a bolder, more aggressive stance on the use of grants for the poorest countries. Extending loans for an already heavily indebted country to provide basic health and education services to its poorest people or to help fight HIV/AIDS and other infectious diseases is inappropriate.
- Private Sector Development: IDA's work on promoting a vibrant private sector in borrowing countries and its collaboration with the World Bank's private sector arm, the International Finance Corporation, need to be stepped up. IDA borrowers need to have stronger private-sector led economies that can generate the employment and tax revenues needed to support crucial public expenditures.
- Public Sector Management: IDA's borrowing countries lack the capacity to track resources adequately to ensure that assistance is used effectively. Efforts to assist borrowers in building their capacity to manage and monitor public expenditures must be dramatically stepped up both to improve service delivery and to ensure full transparency and accountability.

### *U.S. Influence in IDA*

- Through the IDA-13 replenishment negotiations, U.S. leadership secured commitments for reform by IDA in critical areas, including those identified above as needing improvement. Broadly, the anticipated IDA-13 agreement document through which donors commit resources and prescribe a series of reforms will call on IDA to:

- Promote sound policies that will lay a secure basis for productivity growth and poverty reduction in IDA borrowing countries;
  - Ensure IDA assistance is more effective and delivers measurable results;
  - Improve IDA's coordination, transparency and consultation to increase operational effectiveness; and
  - Provide for a substantial replenishment of IDA resources to support countries demonstrating commitment to equitable and sustainable growth.
- With U.S. leadership, the IDA-13 replenishment itself has seen an unprecedented opening up to borrowers, civil society and the general public. For the first time in IDA's history:
    - Borrowing countries participated in the replenishment discussions.
    - All policy papers prepared for the replenishment were publicly available in advance of donors' meetings.
    - A draft of the replenishment agreement was disclosed for public comments in advance of final document.
  - With U.S. leadership, the IDA-13 replenishment is expected to explicitly call for the increased use of grants at a level significantly higher than in past replenishments. These grants will help the poorest countries address their key development challenges without adding to their already substantial debt burdens.

### **Supporting U.S. Objectives**

The number of people living in extreme poverty (defined as number of people living on less than \$1 per day) has dropped by 200 million over the past 20 years (1980-2000), despite a world population increase of 1.6 billion over this period. Nevertheless, 1.2 billion people still live on less than \$1 a day, over 900 million of whom live in countries that rely on IDA funding. (China, with roughly 200 million people in extreme poverty, is not an IDA borrower.) Poverty reduction and projects in the social sector are a key focus of IDA's activities. The World Bank Group has implemented a wide array of policies to deliver on core U.S. development strategy objectives (see also IBRD section).

*Combating Terrorism and Money Laundering* (please see IBRD section for further discussion)

- Afghanistan Reconstruction: In December 2001, a team from the World Bank, UNDP and Asian Development Bank was deployed to Afghanistan to develop a preliminary needs assessment. This work is critical as donor groups develop reconstruction plans for Afghanistan that will help prevent this country from being a haven for terrorist.

- Pakistan Assistance: In October 2001, IDA extended a \$300 million credit for the Pakistan Banking Sector Restructuring and Privatization Project to assist the country with its ongoing banking reform program. Such assistance is important in support of Pakistan's economic reform efforts and capacity to support the U.S. in its fight against terrorism.

### *Increasing Productivity and Raising Living Standards*

Article I of IDA's Articles of Agreement states that, "The purposes of the Association are to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world included within the Association's membership." Examples of WBFY01 activities that supported this mission include:

- Uganda: A \$45 million IDA investment credit will help 90% of the farming population adopt improved technology and management practices in their farming enterprises, resulting in enhanced productive efficiency and economic welfare, and overall poverty reduction.
- Georgia: A \$27 million IDA adaptable program credit will revitalize the irrigation and drainage infrastructures on about 255,000 hectares, resulting in increased agricultural production and income and secure food supplies for approximately 400,000 people.
- Pakistan: A \$21 million IDA investment credit will improve the water delivery system through new on-farm water management practices, and increase agricultural production and farmer income through equitable distribution of irrigation water. The project's beneficiaries number 2.2 million people.

Economic research and historical experience indicates that more and better education is an essential ingredient for higher productivity growth. President Bush has called upon the World Bank and the other MDBs to increase their funding of education. Below is a sample of recently approved IDA-financed projects that contribute to productivity through education:

- India: A good example of IDA's lending for education is the India District Primary Education program, which supports districts where female literacy rates are below the national average. Bank funding for this project has expanded to US\$1.3 billion and is expected to finance 226 districts in 15 states in India.
- Tanzania: In October 2001, IDA approved a \$150 million credit to support efforts by the government of Tanzania to improve education quality, expand school access, and increase school retention at the primary level.
- India: In June 2001, IDA approved a \$74 million credit to the state of Rajasthan in India to expand efforts to improve the quality and availability of primary education.
- Honduras: In April 2001, IDA approved a \$42 million credit to expand access to quality preschool and primary education in rural areas of Honduras.

- Bangladesh: In February 2001, IDA approved a \$53 million credit for a project to improve and expand literacy education in Bangladesh. The project aims to support the newly literate in sustaining their literacy skills and using them to increase their incomes.

### *Health*

In WBFY01, the World Bank programmed some \$747 million for HIV/AIDS prevention and care efforts, mostly in Sub-Saharan Africa. Examples of IDA assistance in the fight against HIV/AIDS and other health concerns over WBFY01 include:

- Bangladesh: Approximately 750,000 people will, through a \$40 million IDA investment credit, benefit from measures to prevent the spread of HIV/AIDS, through education campaigns that target high-risk groups, and to improve government capacity to monitor the spread of HIV/AIDS.
- Bolivia: About two million people will benefit from a \$35 million IDA credit to reduce infant mortality from 67 to 48 per thousand births by strengthening basic health insurance, providing vaccines, and offering prenatal and neonatal care.
- Cameroon: A \$50 million IDA credit will assist people affected by HIV/AIDS, strengthen the capacity of local communities to address the epidemic, and support and design the implementation of sector HIV/AIDS strategies.
- Indonesia: A \$40 million IDA credit and \$63 million IBRD loan will promote effective health sector decentralization in three provinces and help the Ministry of Health and Social Welfare carry out its roles in a decentralized system, benefiting approximately 10 million poor people.
- Kyrgyz Republic: A \$15 million IDA credit will improve access, quality of health care, and training of staff, and expand primary health care centers located in poor rural areas.

The Administration has called for the increased use of grants to fight the spread of infectious diseases.

### *Promotion of Market-Oriented Economies*

In WBFY01, a number of IDA-financed projects helped countries reform their economies through privatization, the promotion of foreign investment and a number of other market-oriented activities. Examples include:

- Kyrgyz Republic: A \$35 million IDA credit will underpin fiscal adjustment and improve the conditions for private sector growth. It will also provide an impetus for energy sector reform while securing social protection programs and reallocating existing benefits.

- Foreign Investment Surveys: In WBFY01, the joint World Bank-IFC Foreign Investment Advisory Service continued its foreign investment surveys in places like East Timor, Nigeria and Russia. Such surveys help authorities develop corrective strategies.
- Senegal: A \$100 million IDA credit will assist the government in its regional integration objectives through macroeconomic stabilization and the promotion of private sector development, resulting in a more competitive Senegalese economy.

#### *Anti-Corruption/Governance*

- Bangladesh: In March 2001, IDA approved a \$31 million credit to assist Bangladesh in making its civil justice system more efficient, effective and accountable. The funds will finance an initial 6-year project aimed in particular at improving case management, reducing delays and case backlog, and improving access to justice, especially for the poor and women.
- Armenia: An \$11 million IDA investment credit will help develop an independent judiciary, strengthening governance and rule of law that are essential for investment; strengthen the institutional capacity of the judiciary; and train judges and court personnel

#### *Information Disclosure*

- Under IDA-12, CASs for IDA countries will be disclosed unless a majority of the Executive Board votes to keep certain ones private. During WBFY01, 15 IDA-eligible countries had either their CASs, CAS Progress Reports, Transitional Support Strategies or Public Information Notices disclosed on the World Bank's website ([www.worldbank.org/cas/](http://www.worldbank.org/cas/))

#### *Post-Conflict Assistance*

The Bank currently works in 35 conflict-affected countries supporting international efforts to break cycles of conflict and assist war-torn populations to resume peaceful development.

- Macedonia: In December 2001, IDA approved a \$15 million credit for Macedonia to help restore economic activity disrupted by the recent emergency. A recently ended civil conflict in Macedonia created an emergency situation where more than 140,000 people were displaced, creating social strains and humanitarian costs.
- Republic of Congo: In July 2001, IDA approved two credits for the Republic of Congo totaling \$43 million. One of the credits will assist in the transition from war to peace by providing urgently needed quick disbursing funds for the Government's 2000-2002 Interim Post-Conflict program. The other will help demobilize and reintegrate about 10,000 ex-combatants into civilian life.
- Democratic Republic of Congo: In July 2001, IDA approved a \$50 million post-conflict grant for the DROC to provide technical assistance for economic reforms, capacity building and aid coordination.

- Ethiopia: In June 2001, IDA approved a \$150 million credit to help the government of Ethiopia stabilize the economy and move back to a sustainable path of growth. Financing from the credit would cover the needs of an economy that is suffering from the impact of a border conflict with Eritrea, a drought, and a sharp decline in the terms of trade.

#### *Disaster Assistance*

Throughout 2001, IDA stepped in to assist countries affected by natural disasters and helped countries strengthen their disaster recovery preparedness. Examples include:

- Nicaragua: In April 2001, IDA approved a \$14 credit to strengthen Nicaragua's capacity to mitigate the effects of natural disasters.
- India: \$400 million for emergency earthquake assistance to Gujarat became formally available to India in March 2001. A portion of this assistance will be used retroactively to finance expenditures incurred since the January 26 earthquake. The rest will meet immediate housing and infrastructure needs.

#### *Environmental Improvement*

- Mozambique: An \$18 million credit to support a Mineral Resources Management Project for Mozambique will help alleviate poverty in areas of small-scale and artisanal mining and encourage the expansion of private investment in mining in a socially and environmentally sound way.
- Uganda: A \$22 million IDA investment credit seeks to build the capacity of players at the national, district, and community levels, in the private and public sectors, to work together to promote sound environment and natural resources management.

#### *IFI Collaboration*

- A protocol on supporting countries preparing PRSPs was agreed on among the multilateral development banks and the IMF.